

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 2146
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AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION NATO BRUSSELS
USMISSION OECD PARIS
USMISSION GENEVA
USNMR SHAPE

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(C O R R E C T E D C O P Y; SEE LINE 7 PARA 1)

PASS LABOR. TREASURY, FRB

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SUBJECT: THE UNIONS, THE BUDGET AND THE NEXT PAY ROUND

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SUMMARY. ONCE AGAIN -- TO THE DISCOMFITURE AND ANNOYANCE
OF TRADE UNION LEADERS -- CHANCELLOR OF THE EXCHEQUER
DENIS HEALEY, IN HIS BUDGET, MADE A SIGNIFICANT PORTION
OF TAX CONCESSIONS CONDITIONAL UPON THE CONCLUSION OF
ANOTHER "SATISFACTORY" WAGE RESTRAINT ACCORD WITH THE
UNIONS. A NUMBER OF TRADE UNION LEADERS SUCH AS HUGH
SCANLON' CLIVE JENKINS. AND ALAN FISHER REACTED NEQATIVE-

LY TO ONE OR ANOTHER ASPECT OF HEALEY'S PROPOSALS. BUT THE RESPONSE OF TUC LEADERS LEN MURRAY, JACK JONES AND DAVID BASNETT WAS MORE MEASURED AND JUDICIOUS DURING THE OLYMPIAN NEGOTIATIONS AHEAD BETWEEN THE TUC AND THE GOVERNMENT. IT IS CLEAR THAT THE TRADE UNIONISTS WILL TRY TO TURN HEALEY'S CALL FOR A "SATISFACTORY" AGREEMENT INTO AN OPPORTUNITY TO STRIKE A HARDER BARGAIN THAN THE GOVERNMENT MIGHT LIKE AND STILL COME HOME WITH THE TAX GOODIES ON OFFER. A THIRD WAGE ROUND, WE BELIEVE, IS STILL LIKELY, BUT ITS SHAPE AND SIZE AND POTENTIAL IMPACT REMAIN VERY UNCLEAR.. END SUMMARY.

1. THE CHANCELLOR OFFERED A VARIETY OF TAX RELIEF MEASURES INCLUDING UNCONDITIONAL CUTS OR IMMUNITY FROM TAX LIABILITY FOR THE LOW PAID AND ALSO SOME BENEFITS FOR THOSE AT THE HIGHER END OF THE WAGE SCALE, WHICH TAKEN TOGETHER AMOUNT TO ABOUT 1.35 BILLION POUNDS (SEE REFTELS FOR BUDGET DETAILS). HOWEVER, HE IS ALSO OFFERING WHAT HE CALLS A "FULL INCOME TAX PACKAGE OF 2.31 BILLION POUNDS" -- I.E. AN ADDITIONAL 960 MILLION POUNDS -- ON CONDITION THAT A "SATISFACTORY AGREEMENT ON A NEW PAY POLICY" IS REACHED WITH THE UNIONS. THIS CONDITIONALLY HAS MIFFED MOST UNION LEADERS LIKE HUGH SCANLON, THE PRESIDENT OF THE AMALGAMATED UNION OF ENGINEERING WORKERS, WHO SUPPORTED THE SECOND WAGE ROUND, AND CLIVE JENKINS, GENERAL SECRETARY OF THE ASSOCIATION OF SCIENTIFIC, TECHNICAL AND MANAGERIAL STAFFS (ASTMS) WHO HAS ALWAYS OPPOSED INCOMES POLICIES. IT DID NOT SIT WELL, EITHER. WITH MORE MODERATE TRADE UNION LEADERS LIKE DAVID LIMITED OFFICIAL USE

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BASNETT, THE GENERAL SECRETARY OF THE GENERAL AND MUNICIPAL WORKERS UNION. SOME UNION LEADERS IN THE PUBLIC SECTOR, SUCH AS ALAN FISHER, THE GENERAL SECRETARY OF THE NATIONAL UNION OF PUBLIC EMPLOYEES (NUPE), WHO SUPPORTS A THIRD ROUND, EXRESSED STRONG DISAPPOINTMENT ABOUT THE GOVERNMENT'S FAILURE TO REVERSE PUBLIC EXPENDITURE CUTS OR DO ENOUGH ABOUT UNEMPLOYMENT.

2. LEN MURRAY, TUC GENERAL SECRETARY, RESPONDED IN A REASONED AND JUDICIOUS WAY. HE RECOGNIZED, HE SAID, THAT "ON BALANCE, THE BUDGET IS HELPFUL" AND HE WELCOMED THE TAX CUTS WITH CERTAIN RESERVATIONS ABOUT THEIR DISTRIBUTION, BUT HE VIEWED THE BUDGET AS SIMPLY THE BEGINNING OF NEGOTIATIONS FOR A THIRD WAGE ROUND, WHICH HE FELT WOULD BE NEITHER "QUICK NOR EASY". JACK JONES, GENERAL SECRETARY OF THE TRANSPORT AND GENERAL WORKERS UNION, DESCRIBED THE BUDGET AS "BELOW EXPECTATIONS" BUT WAS CAREFUL NOT TO SUGGEST THE END OF PAY POLICY. BASNETT, WHO IS A SIGNIFICANT CONTRIBUTOR TO TUC POLICY, PUBLICLY

DESCRIBED THE BUDGET AS "NOT TOO BAD" ALTHOUGH HE PRIVATELY TOLD US THAT THE NEGOTIATIONS WITH THE GOVERNMENT "ARE GOING TO BE VERY DIFFICULT".

3. LEAVING ASIDE THE ISSUE OF CONDITIONALITY, THE CHANCELLOR APPEARS TO HAVE GONE A CONSIDERABLE DISTANCE IN HIS TAX PROPOSALS TOWARD MEETING SOME OF THE PROBLEMS OF WORKERS ESPECIALLY AT THE LOWER END OF THE SCALE, AND HE HAS OFFERED AN ADDITIONAL 400 MILLION POUNDS IN

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FURTHER MEASURES TO EASE UNEMPLOYMENT AND BOOST CONSTRUC-

TION. THE TAX AND EXPENDITURE CHANGES TOGETHER ARE EXPECTED TO GIVE RISE TO OR PROTECT SOME 250,000 MORE JOBS. MOREOVER, CONTRARY TO TUC EXPECTATIONS, HE HAS NOT RAISED VAT. SO DESPITE TUC PUBLIC GRUMBLING, IT COULD HARDLY HAVE EXPECTED HIM TO DO MORE IN THESE AREAS IN VIEW OF THE CONSTRAINTS PLACED UPON HIM. BUT HE HAS LIMITED OFFICIAL USE

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CLEARED THE DECKS FOR THE NEGOTIATIONS ON THE THIRD ROUND.

4. THE CHANCELLOR, IT IS CLEAR, WAS ALSO CAREFUL TO KEEP AN ESCAPE HATCH OPEN. HE USED THE TERM "SATISFACTORY AGREEMENT" WITH THE UNIONS AS HIS OBJECTIVE, THUS ALLOWING FOR A CERTAIN FLEXIBILITY IN SHAPING THE ULTIMATE DEAL WHICH EVOLVES AND HE AVOIDED THE DELINEATION OF SPECIFIC TERMS. BUT WHILE THE TAX INDUCEMENTS OFFERED BOTH UNCONDITIONALLY AND CONDITIONALLY ARE EQUIVALENT TO AN AVERAGE INCREASE IN GROSS WAGES OF 4 1/2 PERCENT, THE PRESSURES FOR A SUPPLE AND TRULY FLEXIBLE WAGE POLICY REMAIN VERY STRONG. JUST A FEW DAYS BEFORE THE BUDGET ANNOUNCEMENT, JACK JONES TOLD US THAT HE WOULD PRESS THE TUC TO SEEK AN ARRANGEMENT WHICH WOULD NOT ONLY ACCOMMODATE DIFFERENTIAL PAY AND ANOMALY PROBLEMS, BUT WOULD ALSO INCORPORATE PREVIOUS PAY INCREASES IN THE BASIC PAY STRUCTURE AND PROVIDE FOR INCENTIVE SCHEMES IN INDUSTRY. HE RECOGNIZED THAT THE ATTAINMENT OF ALL THESE OBJECTIVES WOULD IN FACT BE "INFLATIONARY" AND HE HIMSELF WONDERED WHETHER A WAGE ROUND WHICH MET THESE DEMANDS COULD EFFECTIVELY RESTRAIN WAGES.

5. THUS, THE TUC/GOVERNMENT NEGOTIATIONS WILL INDEED BE "TOUGH" AND THERE IS ABSOLUTELY NO ASSURANCE THAT A MEANINGFUL PAY ROUND CONSISTENT WITH HMG THINKING WILL EMERGE. IT IS OF COURSE CUSTOMARY FOR TRADE UNIONS TO PUT THEIR TOUGHEST BARGAINING POSITION FIRST. BUT A THIRD ROUND AGREEMENT IS UNLIKELY TO HAVE THE SIMPLICITY OF THE FIRST AND SECOND AND THE "COMPROMISE" WHICH WE EXPECT TO EMERGE WILL BE SIGNIFICANTLY LESS AUSTERE THAN ITS PREDECESSORS. SPIERS

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